

# FDIC State Profile

Spring 2005

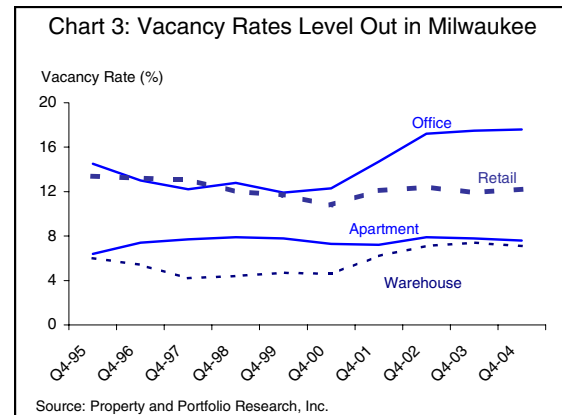
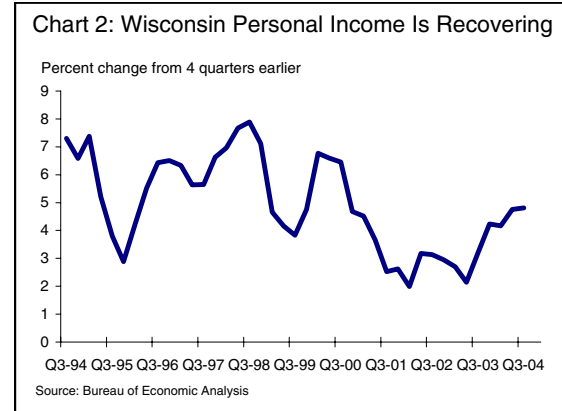
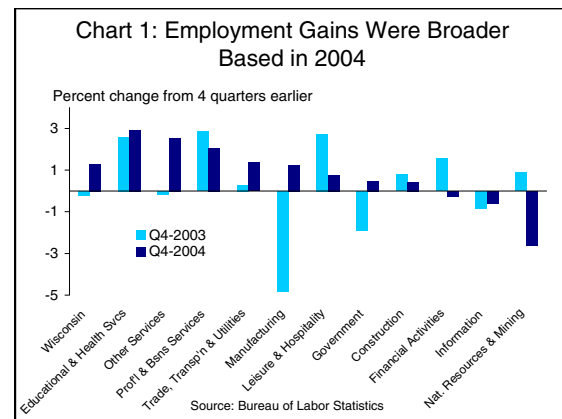
## Wisconsin

Wisconsin's economic expansion gathers strength and breadth.

- Job growth in Wisconsin steadily accelerated as 2004 unfolded. Fourth-quarter employment was 1.3 percent higher than a year earlier, which contrasted with a modest decline in 2003 (See Chart 1). The last time the state posted four consecutive quarters of job growth ended in first quarter 2001.
- A noticeable shift occurred among manufacturers, which employ about 18 percent of Wisconsin workers. Producers of durable goods increased hiring in response to rising capital spending by U. S. firms and demand from abroad for the types of industrial machinery and equipment produced in the state. In contrast, job cuts in the food processing, paper, and printing sectors contributed to lower employment among producers of nondurable goods.
- Sustained hiring by professional and business services reflected demand from temporary help and employment placement firms that, in turn, place people in other industries seeking workers.
- Because employment grew faster than its labor force, Wisconsin's unemployment rate fell to 4.7 percent in fourth quarter 2004 from 5.4 percent a year earlier. The unemployment rate in the **Madison** metropolitan area, traditionally among the lowest nationwide, was 2.4 percent in the fourth quarter. At the other extreme was the **Racine** metropolitan area, where the 6.1 percent unemployment rate was high yet noticeably improved from 7.0 percent at year-end 2003.

### Household finances are improving.

- Personal income in Wisconsin rose in tandem with labor market improvements. In both nominal and inflation-adjusted terms, personal income posted the strongest gains in four years (See Chart 2). Stronger income growth may be contributing to the decline in personal bankruptcy filings since late 2003.
- Home resales in the state remained high in 2004 but showed very modest net growth after three years of rising activity, when many households traded up or entered the homeownership market.



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### Commercial vacancy rates stabilize in Milwaukee.

- Vacancy rates are reported to be stabilizing or improving modestly in the **Milwaukee** metropolitan area (See Chart 3). Although local employment growth accelerated to nearly 2 percent in the second half of 2004, it will take sustained gains before the current inventory of available space is absorbed.

### Asset quality improved and performance held steady among community institutions.<sup>1</sup>

- The overall past-due and nonaccrual rate on loan portfolios of community institutions headquartered in Wisconsin fell to 1.69 percent on December 31, 2004, from 2.00 percent a year earlier. Improvement was broad based among loan categories (See Chart 4).
- Return on Assets dipped in 2004 as most components of net income changed modestly but noninterest income fell more noticeably (See Table 1). The decline in noninterest income may reflect a slowdown in mortgage originations and refinancings by institutions headquartered in Wisconsin.

### Rising market interest rates affect funding costs.

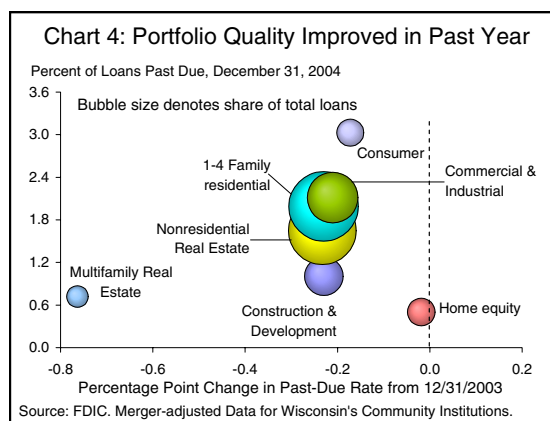
- As the fed funds rate rose by 94 basis points between second and fourth quarters 2004, the cost of funding among Wisconsin's large banks rose by 28 basis points, while community institutions experienced only a 12 basis-point rise (See Chart 5).
- The smaller core deposit base at large banks is one reason their funding costs react more to market rates. The aggregate core deposit-to-asset ratio for large Wisconsin institutions was 50 percent at year-end 2004, in contrast with 68 percent at community institutions.

### Loan growth accelerated at community institutions.

- Loan portfolios expanded by 12 percent last year. This pace followed three years of growth between 7 and 8 percent but was shy of the 14 and 15 percent gains in the pre-recession years 2000 and 1999, respectively.
- Residential mortgages at year-end 2004 were 8 percent higher than a year earlier, following three years of little change.
- Loans to individuals (excluding credit cards) fell by 8 percent, the third annual decline. At year-end, they accounted for 4.1 percent of loan portfolios, down from 6.9 percent four years earlier.

<sup>1</sup>Community institutions are insured banks and thrifts with less than \$1 billion in assets, excluding new (less than three years old) and specialty banks and thrifts. Large institutions have assets of \$1 billion or more. Data are adjusted for merger activity.

- In contrast, home equity loans (HELs) rose by more than 33 percent for the third consecutive year. At year-end, HELs accounted for 4.6 percent of loan portfolios, more than double their 2000 share.
- Growth in loans for construction and development accelerated to 35 percent (from 30 percent), while commercial and industrial loans grew nearly 6 percent (from 3 percent). Loans for nonresidential real estate expanded by 16 percent, close to recent years' pace, and growth in multifamily real estate loans slowed to 13 percent.

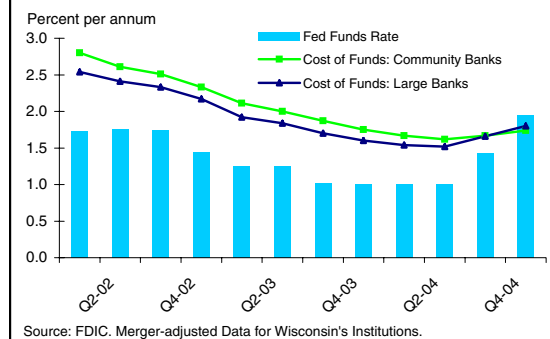


**Table 1: Lower ROA Reflects Decline in Noninterest Income**

Income statement contribution (as a percentage of average assets)			
	Calendar year		Percentage Point Change
	2003	2004	
Net Interest Income	3.59	3.61	0.02
Noninterest Income	0.95	0.75	-0.20
Noninterest Expense	-2.73	-2.69	0.04
Provision Expense	-0.20	-0.15	0.05
Security Gains & Losses	0.04	0.02	-0.02
Income Taxes	-0.42	-0.40	0.02
Net Income (ROA)	1.23	1.14	-0.09

Source: FDIC. Merger-adjusted Data for Wisconsin's Community Banks and Thrifts.

**Chart 5: Cost of Funds at Large Banks Responded More to Recent Upturn in Market Interest Rates**



## Wisconsin at a Glance

**ECONOMIC INDICATORS** (Change from year ago quarter, unless noted)

<b>Employment Growth Rates</b>	<b>Q4-04</b>	<b>Q4-03</b>	<b>Q4-02</b>	<b>Q4-01</b>	<b>Q4-00</b>
Total Nonfarm (share of trailing four quarter employment in parentheses)	1.1%	-0.2%	0.0%	-1.8%	1.1%
Manufacturing (18%)	0.9%	-4.8%	-3.5%	-8.2%	-0.9%
Other (non-manufacturing) Goods-Producing (5%)	0.5%	0.8%	-0.7%	1.4%	0.5%
Private Service-Producing (63%)	1.4%	1.5%	1.0%	-1.0%	1.9%
Government (15%)	0.4%	-1.8%	0.8%	2.8%	1.1%
Unemployment Rate (% of labor force)	4.7	5.4	5.3	4.8	3.6

<b>Other Indicators</b>	<b>Q4-04</b>	<b>Q4-03</b>	<b>Q4-02</b>	<b>Q4-01</b>	<b>Q4-00</b>
Personal Income	N/A	4.2%	3.0%	2.6%	4.7%
Single-Family Home Permits	-2.8%	13.2%	15.2%	-3.9%	3.8%
Multifamily Building Permits	-13.7%	-19.4%	38.1%	9.2%	-10.6%
Existing Home Sales	8.8%	-0.2%	16.3%	11.8%	1.1%
Home Price Index	8.0%	6.9%	4.9%	5.1%	6.4%
Bankruptcy Filings per 1000 people (quarterly level)	1.11	1.12	1.16	0.97	0.81

**BANKING TRENDS**

<b>General Information</b>	<b>Q4-04</b>	<b>Q4-03</b>	<b>Q4-02</b>	<b>Q4-01</b>	<b>Q4-00</b>
Institutions (#)	308	311	314	322	354
Total Assets (in millions)	118,361	109,403	103,138	103,368	97,913
New Institutions (# < 3 years)	1	5	10	14	11
Subchapter S Institutions	65	60	55	51	48

<b>Asset Quality</b>	<b>Q4-04</b>	<b>Q4-03</b>	<b>Q4-02</b>	<b>Q4-01</b>	<b>Q4-00</b>
Past-Due and Nonaccrual Loans / Total Loans (median %)	1.68	2.03	2.16	2.28	1.79
ALLL/Total Loans (median %)	1.23	1.27	1.25	1.22	1.21
ALLL/Noncurrent Loans (median multiple)	1.72	1.34	1.35	1.33	2.15
Net Loan Losses / Total Loans (median %)	0.07	0.09	0.10	0.08	0.05

<b>Capital / Earnings</b>	<b>Q4-04</b>	<b>Q4-03</b>	<b>Q4-02</b>	<b>Q4-01</b>	<b>Q4-00</b>
Tier 1 Leverage (median %)	9.68	9.59	9.34	9.14	8.94
Return on Assets (median %)	1.10	1.18	1.21	1.06	1.02
Pretax Return on Assets (median %)	1.47	1.59	1.65	1.44	1.39
Net Interest Margin (median %)	3.98	3.97	4.14	3.86	3.89
Yield on Earning Assets (median %)	5.60	5.86	6.71	7.77	8.11
Cost of Funding Earning Assets (median %)	1.65	1.91	2.53	3.88	4.27
Provisions to Avg. Assets (median %)	0.11	0.13	0.16	0.13	0.12
Noninterest Income to Avg. Assets (median %)	0.59	0.72	0.66	0.57	0.53
Overhead to Avg. Assets (median %)	2.71	2.72	2.72	2.69	2.61

<b>Liquidity / Sensitivity</b>	<b>Q4-04</b>	<b>Q4-03</b>	<b>Q4-02</b>	<b>Q4-01</b>	<b>Q4-00</b>
Loans to Assets (median %)	71.9	69.4	69.5	70.4	71.5
Noncore Funding to Assets (median %)	17.1	15.2	15.3	15.2	16.1
Long-term Assets to Assets (median %, call filers)	8.4	9.7	8.4	9.7	10.7
Brokered Deposits (number of institutions)	155	137	137	136	156
Brokered Deposits to Assets (median % for those above)	4.3	3.3	3.2	2.6	3.0

<b>Loan Concentrations (median % of Tier 1 Capital)</b>	<b>Q4-04</b>	<b>Q4-03</b>	<b>Q4-02</b>	<b>Q4-01</b>	<b>Q4-00</b>
Commercial and Industrial	85.6	91.8	91.7	100.8	112.8
Commercial Real Estate	232.3	205.6	182.3	174.9	169.0
Construction & Development	39.0	34.2	28.1	27.1	21.8
Multifamily Residential Real Estate	6.0	4.8	4.2	5.3	6.3
Nonresidential Real Estate	163.4	143.4	134.1	130.3	127.5
Residential Real Estate	233.1	228.2	252.9	257.0	283.0
Consumer	30.7	35.7	43.2	49.8	52.9
Agriculture	43.2	45.0	50.5	49.9	48.0

**BANKING PROFILE**

<b>Largest Deposit Markets</b>	<b>Institutions in Market</b>	<b>Deposits (\$ millions)</b>	<b>Asset Distribution</b>	<b>Institutions</b>
Milwaukee-Waukesha-West Allis, WI	61	38,461	< \$250 mil.	244 (79.2%)
Madison, WI	49	10,341	\$250 mil. to \$1 bil.	51 (16.6%)
Green Bay, WI	26	4,998	\$1 bil. to \$10 bil.	11 (3.6%)
Appleton, WI	30	2,873	> \$10 bil.	2 (0.6%)
Racine, WI	18	2,462		